DEPARTMENT OF FINANCIAL SERVICES
OIR - Insurance Regulation

SUBJECT: PUBLIC HEARING

DATE: Monday June 21, 2010

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Tallahassee, FL

REPORTED BY: Tracy L. Brown
Certified Registered Reporter

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APPEARANCES:

MEMBERS:

JEFF RAINEY
LIBBY THOMSON
ERNIE DOMONDON
BOB PRENTISS
STACY WILHITE, MADAM CHAIR
MARY MOSTOLLER
ROBIN WESTCOTT

PROCEEDINGS

MADAM CHAIR: Good afternoon, ladies and gentlemen. My name is Stacy Wilhite. I'm an assistant general counsel with the Office of Insurance Regulation, State of Florida. I will be presiding at the hearing today. For the record, this hearing is being held in room 116, Larson Building, 200 East Gaines Street, Tallahassee, Florida, on June 21, 2010 pursuant to a notice thereof. As you know, the subject of this hearing is the proposed reorganization of the Florida Retail Federation Self Insurance Fund.

Notice of this hearing was provided by publication in the Florida Administrative Weekly, volume 36, number 33, issue June 11, 2010. And concurrently notice was given by mail to all members of the fund. Copies of the agenda are available on the table in the back. If you need a copy, please pick one up.

The specific purpose of this hearing is to allow the members of the Fund to hear more about the proposed reorganization and to allow public comment on the Fund's plan of reorganization. Each of you will be given an opportunity to speak. When recognized, please identify yourself by name and title or capacity in which you speak, and speak loudly enough so everyone can hear. Please avoid redundant and cumulative comments. These proceedings are being recorded and will become part of the record; therefore, please identify yourself each time you speak. And only one person at a time shall speak.

We will begin with the presentation from Mr. Tom Petcoff of the Florida Retail Federation Self Insurance Fund. Mr. Petcoff.

MR. MAIDA: Before we begin, if I could provide an overview. If that would be appropriate, I would like to do that.

MADAM CHAIR: Okay. And what's your name for the record?

MR. MAIDA: Tom Maida with the law firm of Foley & Lardner. And we're counsel to the Florida Retail Federation Self Insurers Fund. I'm joined here today by my partner, Wes Strickland, from Foley & Lardner as well.

I'm going to begin by making some introductions of some of the folks you see at the table and on our side of the aisle here. To my right is Mr. Petcoff, one of the trustees of the Florida Retail Federation Self Insurers Fund. To his right is John Hanselman who is also a member of the board of trustees. Behind John, Mr. Nis Nissen, another trustee with the Fund. To Nis' left is Ms. Carol Sipe, she's the president of Summit Consulting which is the Fund's administrator. To Carol's left is David Conway, vice-president, CFO of Summit. Behind Dave is Brad Ritter, Summit's chief actuary. And to his right is Mr. Pat DeLacey of Raymond James. So those are the folks that we've brought with us this morning.

As you know, the Fund filed with the Office an application for approval of this plan of reorganization which was adopted after a lengthy and careful deliberative process. The primary consideration for which was determining whether continuing on as a workers' compensation self insurers fund was in the best interest of the members or whether there was another form of organization which would best serve the members and be more advantageous to the Fund.

With that in mind, two principal goals emerged, first and foremost was the elimination of contingent assessment liability. Secondly, creating a business structure that gave the enterprise sufficient flexibility to respond to changes in the market place and to the overall business environment. In order to provide that flexibility, the trustees were interested in having an organization that could compete more effectively, could provide access to capital, enable it to seek business combinations, and provide it with an opportunity to stock where appropriate for acquisitions.

In a moment, you will hear from Tom Petcoff, one of the members of the board of trustees, who will testify about the board's deliberations, the alternative transactions that the board considered, and why the board settled on the plan that you have before you. The plan, of course, calls for the ultimate conversion of the Retail Federation Fund to a stock insurance company to be called RetailFirst Insurance Company, which will be part of a mutual insurance holding company system. At the top of the organizational chart that you have over there will be RetailFirst Mutual Holdings, Inc. And the members of the Fund on the effective date will exchange their interest in the Fund for interest in the mutual insurance holding company, thereby becoming the owners of that mutual insurance holding company. In turn, the mutual insurance holding company will own 99 percent of an intermediate holding company which will be called RetailFirst Holdings, Inc. And that intermediate holding company will own three entities, RetailFirst Insurance Company, BusinessFirst Insurance Company, and RetailFirst Services, LLC.

The structure we think very effectively accomplishes each of the goals established by the trustees at the outset of the process. First and most importantly, it establishes the goal of eliminating the members' contingent assessment liability. On the effective date, the Fund's member agreements will be assumed by and become the obligations of RetailFirst Insurance Company. We believe the structure will also satisfy the other strategic objectives established by the trustees as well.

As part of the board's deliberative process, it consulted with its administrators, Summit Consulting, with our law firm, with Raymond James. Foley advised the board as legal counsel, helped the board evaluate alternative business transactions, assisted it in creation of the plan, and acted as counsel during the application process. We will also issue a tax opinion for the benefit of the members to the effect that the reorganization will not result in income taxation to the members. Raymond James was engaged by the firm, and you'll here from Pat DeLacey today, for the purposes of evaluating the transaction and rendering an opinion as to the fairness of the transaction to the members from a financial point of view.

The trustees are of the firm belief that this plan is in the best interest of the members. Of all of the alternatives they considered, including doing nothing, this was the one which accomplished all of those objectives. If approved by the Office, the plan will be subject to approval by the members at a meeting called especially for that purpose. We believe that this plan is good for the members. We believe it's good for the public. We believe it's good for the market. And we are in sheer approval of the plan.

With that, I'll ask Mr. Petcoff to make opening comments if that meets with your approval.

MADAM CHAIR: That's fine.

MR. PETCOFF: Thank you, Tom, Madam Chairman, members of the committee. My name is Tom Petcoff. I am a trustee of the Florida Retail Federation of

Self Insurers Fund, and a director of BusinessFirst Insurance Company. Today I'll be referring to the FRF SIF simply as the Fund and referring to BusinessFirst simply as BusinessFirst.

We are here today to talk to you about our mutual holding company concept. And with me, as Tom has previously mentioned, are fellow trustees and BFIC directors, John Hanselman and Nis Nissen. Our other trustees, Bill Kundrat, Chuck Wince (phonetic) and George Sandefer would like to have been here, they did have scheduling conflicts and send their apologies. On behalf of the trustees, we'd like to thank you for this opportunity to present our case and let you know that we have unanimously approved the plan of reorganization.

Starting perhaps 15 or 16 years ago, you may remember there was a massive conversions from self insurance funds to some other entity. Over the last 15 or 16 years, our board has examined that possibility pretty much on an annual basis and determined that the timing was never quite right until now. The process that we have gone through over these last 15 or 16 years has included talking with experts outside of our own expertise, talking to competitors, talking to our agents, simply trying to measure each and every year what would be in the best interest of the members of the Fund.

As Mr. Maida earlier mentioned, we adopted the plan of reorganization on October 22nd, 2009. However, our vote to adopt the plan was preceded by months, as I mentioned, careful attention to detail, presentations by experts in various fields. Tom has explained to you the experts that we've used. And I would mention to you that we tasked them with the responsibility of enumerating each of the options that they saw available to us, available through statute and through rule. And we asked them further to prepare a simple T-chart listing the advantages and disadvances of each of those options. The board carefully considered each of those options, and after several board meetings, determined that plan we presented to you today is in the best interest of the fund members. We believe that to be so because it does eliminate contingent assessment liability by converting to a nonassessable insurer. We further determined that the mutual insurance company, holding company structure provided the maximum organizational -- and flexibility that would enable us to fulfill our strategic mission which has been, as it always has been since 1979, to provide a long-term financially stable workers' compensation market for our members.

As part of the process of leading up to the adoption of the plan, we considered seven different options. One of the options was simply maintaining the status quo, or do nothing. Simply do business as a group self insurance fund as we have for more than 30 years. Although we have enjoyed success over the years, and our program is remarkably financially sound, we have noticed over the last five years a decline in our membership base of nearly 20 percent. The trustees believe that this erosion in membership base is primarily due to the contingent assessment liability of the Fund members. We believe it's prudent to convert to nonassessable insurer at a time when the Fund is in a financial position that allows us to convert, without material adverse effect, the capital and surplus that's necessary for us to operate in a post-conversion world.

Similar to the option of doing nothing, we considered whether or not to sell the Fund shares to BusinessFirst and/or to sell BusinessFirst to a third-party, which would allow the Fund to focus on operating as a Fund, but we believed that for the reasons that we initially formed BusinessFirst to remain sound, and we don't believe selling BusinessFirst would be in the best interest of the members. For the same reasons we decided that doing nothing is not a prudent action, we determined that the second option would not be viable either.

We considered three options that would basically involve combining the Fund into BusinessFirst. Along these lines we considered whether to engage in a lost portfolio transference whereby all the Fund's assets, except for the stock in BusinessFirst, and all of the Fund's liabilities would be transferred to BusinessFirst. We also considered merging the Fund into BusinessFirst and either issuing common stock or preferred stock to the members in exchange for their membership interest. We determined that none of these options would be prudent at this time.

One of the primary reasons for rejecting these options is that any of these structures would fundamentally alter the mutual form of governance whereby the interest of the ongoing policyholders are lined with the interest of management. Because the mutual insurer, like your group self insurance fund, the policyholders effect the -- elect the directors -- or the trustees.

We also considered converting the Fund to a nonassessable mutual insurer keeping BusinessFirst as a stock subsidiary. This option was attractive in that it would preserve the mutual form of governance while allowing us to provide nonassessable coverage for the members. However, when we compared this structure to the mutual insurance holding company's structure, we determined that it would be in the best interest of the members to proceed with converting to a mutual insurance holding company, which would preserve mutuality while enhancing the ability of the organization to raise capital and engage in other transactions in the future. In other words, we believe the mutual insurance holding company's structure provides more organizational efficiency and flexibility than simply converting to a nonassessable mutual.

The trustees have voted unanimously -- by voting unanimously determined the conversion of the Fund to a stock insurer under mutual insurance holding company structure is indeed in the best interest of the members, and therefore, on behalf of the trustees of the Fund, I and our other trustees respectfully request the Office to approve our plan for reorganization. Thank you.

MADAM CHAIR: Well, thank you, Mr. Petcoff. At this time, Bob Prentiss, assistant general counsel with the Office of Insurance Regulation will present the Office's questions to the Fund.

MR. PRENTISS: Good afternoon. Thank you.

MR. MAIDA: Could I ask a question before Mr. Prentiss begins? Would you like to hear Mr. DeLacey's statement first, or would you like to proceed with the questions first?

MR. PRENTISS: From Raymond James?

MR. MAIDA: Yes.

MR. PRENTISS: Sure. That would be fine.

MR. MAIDA: Completely up to you.

MR. PRENTISS: No, no, let's hear from Mr. DeLacey, because he might answer some of the questions we have.

MR. MAIDA: Okay. That's what I was thinking.

MR. DeLACEY: Good afternoon. I'm Pat DeLacey. I'm a managing director of the investment banking group at Raymond James Associates. I've been employed there for more than ten years. And

I've been in the business of advising insurance companies for more than 20 years. I have advised more than a dozen mutual organizations in a variety of transactions and have offered opinions and testimony in jurisdictions including Illinois, Texas, here in Florida, and New York.

We were engaged in early September 2009 to assist the board in evaluating the plan of reorganization that is before you today. As part of our engagement, we familiarized ourselves with the organization and all the related documents that would allow us to evaluate the financial aspects of the plan. These would include the annual statement, filings with the regulators, contracts between the company and Summit, actuarial reports, both internal and external to the company, business plans, projections, proforma financial statements, and, of course, the plan of reorganization itself and draft disclosure documents that the company intended to use with its policyholders. After -- or as part of our review, we made a presentation to an internal committee of Raymond James, our so-called fairness opinion committee, which is comprised of members of investment banking management and in-house counsel. And after deliberation, determined that it is our opinion that the reorganization is fair to the policyholder members from a financial point of view.

MR. PRENTISS: Thank you. Whoever answers these questions is kind of up in the air. If Mr. Petcoff wants to answer, somebody he else wants to answer, that will be fine.

Please explain while the trustees want to convert the Florida Retail Federation Self Insurers Fund, I'll refer to it as the Fund, to a stock insurer, given the risks described in the plan of reorganization and additional risks described in the draft proxy statement.

MR. HANSELMAN: I guess I can start. The risks of moving to a mutual holding company structure we believe are limited. There are greater risks by staying in the current situation that we are now. To address what those risks are. But there is one financial risk, and that is the dividends or the taxes that we might have to pay out -- thank you very much, excise tax. And that is a financial risk that we need to deal with, no question about it. But really, if you look back at it, it's not a risk because you have to be profitable in order to actually send that dividend out. So that is an issue that we need to deal with a very limited risk. So we actually think that moving into this mutual holding company structure would actually limit our risks and not increase our risks. The risk of staying the way we are right now is a risk of losing -- continually losing our top line in a very competitive environment. The risk that enters to the policyholders by having this contingent accessibility, that will be once again removed. We have the risk of not having enough -- the risk of having inflexible capital at our disposal to increase the stability and growth of the organization.

So there's a variety of risks that we actually incur as a result of staying in the current firm. Very limited risks or fewer risks moving to a mutual holding company structure.

MR. PRENTISS: You mentioned that -- Mr. Petcoff mentioned that the 20 percent loss you believe of insureds, whatever you want -- members, I guess, was due to the contingent -- the liability aspect from the assessments. Did you contact people or is this -- to find that out or did you just -- speculating?

MR. PETCOFF: No. We're in pretty much constant daily contact with both members and agents that place accounts with us. Contingent liability is a huge issue. There are other issues that are associated with self insurance funds as well for our members. Certainly declining economy may have some impact on that loss of membership. Contingent liability definitely is a factor both in losing accounts and in not being able to secure replacement business. And perhaps the third issue there is the unwillingness of umbrella liability carriers to write umbrella coverages over self insurance funds. So if the retail member needs to buy umbrella coverage and his current work comp coverage with the Fund, you just won't be able to find that easily. I won't say it's not completely available, but it's a difficult coverage.

MR. DOMONDON: Excuse me. Mr. Hanselman, you mentioned something about -- Mr. Hanselman, you mentioned something earlier about what the reasons the -- should be, is it excise tax?

MR. HANSELMAN: Yes. Excess profit tax.

MR. DOMONDON: Oh, excess profit tax. Okay. Is that disclosed in your plan or the --

MR. HANSELMAN: It is.

MR. DOMONDON: -- proxy statement that --

MR. HANSELMAN: We address that issue and suggest that that would be something that would be an issue that we have to deal with as a new plan of organization.

MR. PRENTISS: What is the current financial position of the Fund with respect to surplus?

MR. PETCOFF: It's probably the best it's ever been, which is why the timing is right for us now, because we can convert without tremendous negative impact. When the accounting rules change for us and we can no longer take advantage of future investment income, we're still in a position where our writings to surplus are going to be -- Mr. Conway, help me with the number. We're currently at --

MR. CONWAY: At year end, we're, I believe, 123.5 million. That's on a Fund basis versus what an insurance company basis would be, because of future investment income that a fund can count as assets, and thus as part of surplus. But on an insurance company basis, it would be in excess of 115 million.

MR. PETCOFF: So we're still going to have a surplus of writings ratio of almost --

MR. PRENTISS: Do the members of the Fund receive a dividend or cash disbursement or shares of stock or some combination under the plan?

MR. PETCOFF: They will continue to participate in dividends as they have pre conversion to the extent that there's any profits to distribute. We've never had a guaranteed dividend, it's always been based on profitability of the Fund. And in a post-conversion world, it would be the board's anticipation and hope that profits would continue, and therefore we would continue to declare dividends.

MS. WESTCOTT: I'd like to interject. I'd like to ask the gentleman from Raymond James, I'm sorry.

MR. DeLACEY: Yes.

MS. WESTCOTT: In your fairest opinion, your evaluation, did you consider past distributions to Fund members versus their ability -- versus the equity position that the self insurance fund is in right now given that, you know, there have been dividends made, I understand that they have been conservative dividends made to the actual Fund members, did you consider that versus what that was worth in this transaction to those individual policy members?

MR. DeLACEY: Our analysis was to compare policyholder membership rights before the transaction to what they were receiving in the transaction. Certainly as part of their membership in the past, they've received distributions. Their opportunity for future distributions has been undiminished by this transaction in any way. They have lost no governance rights in any way, shape, or form in this transaction. The mutual holding company structure that's put in place does not prevent them from receiving exactly what they've received in the past, which was core and key to the analysis. There's no leakage of value in this transaction in any way that has diminished their opportunity for future distributions which they have enjoyed as members of the SIF.

MS. WESTCOTT: Okay. Thank you.

MR. PRENTISS: What will be the post conversion financial position of the Fund?

MR. PETCOFF: We think it will be very solid, very solvent. And it will fulfill our continuing mission of being financially stable for the long-term market. With the exception of losing the future investment income accounting, we're still going to have a surplus to writings ratio that's far better than required. Our surplus will -- post conversion, our surplus will still be more than two times our top line writers.

MR. HANSELMAN: And, in fact, you could even make a case that it will be stronger and that we'll have more financial flexibility, that is the ability to issue equity and additional capital so that we can shore up a position if disaster should befall us. It actually enhances our stability position from a financial perspective.

MR. PRENTISS: Do you know if the projected pre and post conversion financial position is in the proxy statement?

MR. HANSELMAN: A proforma on such?

MR. DOMONDON: Yes. I think in the proxy statement, I think the Exhibit B included a copy of the audited financial statement of the company. I saw the end of year 2009 comparing it to 2008. We are referring to a projected pre and post conversion financial position of the company.

MR. PETCOFF: We don't anticipate any change post conversion. There's no reason to expect that any member would leave, so our top line we see is unaffected. The surplus number would not change. All of our expenses remain consistent in terms of administrative fees, commissions, reinsurance premiums, we see no change in any of those.

MR. HANSELMAN: And, Tom, cash surplus, we would lose future investment income off of the surplus, but that really is a non cash position, so that's deemed stability when there really is nothing there. We believe even without that future investment income, we are very solid in terms of surplus. So that is the only accounting differential that you should see in that proforma projection, but I do need to review that one more time.

MR. DOMONDON: Well, in addition, I think it would be beneficial to the members to see some historical financial data of the company of the Fund. In the annual statement, you have a five-year historical data, I think there are certain items there that would be beneficial to the members. You know, to show how the services are growing and the premiums written and dividends you've paid, and all the underwriting income that the self insurance fund is --

MR. HANSELMAN: Great story to tell and we'll do so.

MR. DOMONDON: That would be good information.

MR. MAIDA: You're referring to in the proxy statement?

MR. DOMONDON: Yes.

MR. MAIDA: Sure, we'll be happy to work with you on developing exactly what should be in there. Good suggestion.

MR. DOMONDON: Okay.

MR. PRENTISS: Did the Fund utilize surplus dollars from the Fund to set up a down stream subsidiary, BusinessFirst Insurance Company, so that the members of the Fund could have an option to move to an entity within the existing corporate structure and buy nonassessable policies?

MR. PETCOFF: Did we?

MR. PRENTISS: Yes.

MR. PETCOFF: Five years ago, yes.

MS. WESTCOTT: Can I expound upon that?

MR. PRENTISS: Yes, sure.

MS. WESTCOTT: I guess I'm -- I think this question probably comes up from the perspective of, okay, we've had a entity out there now for five years and it is the insurance company model that you're now moving the SIF to, what have been the difficulties or what has been the perception of your members in their view of that insurance company versus the Fund that they're in? And I know that at the time that that was filed, it was -- the plan was to try to move some of those members over, give them an opportunity to go into that private --

MR. PETCOFF: No, ma'am.

MS. WESTCOTT: No, ma'am? Correct me then and tell me the story about how -- what the members saw, how they were -- how it was represented to them, what was their opportunities. Tell us a little bit about that.

MR. PETCOFF: We never had intended for it to be a place simply to move members out of the Fund and into BusinessFirst.

MS. WESTCOTT: Okay.

MR. PETCOFF: The companies were differentiated by underwriting guidelines, the nature of the accounts. Now, it was -- and actually the Department asked us during the conversion, during the public -- not conversion, during the process of establishing BusinessFirst, the Department specifically asked us not to raid the Fund to populate BusinessFirst and we agreed not to do that. Although we did say that there may be some instances where a member of the Fund who had -- was going to flee because of joint several liability, if we could retain him in some fashion that provided he met the underwriting guidelines of BusinessFirst, that he might move over. But it has never been a place to house -- it was never intended that we raid or move a core business out of the Fund. Folks who were in the Fund who are happy to be there, who are comfortable, remain there. We did offer somebody who said, we're leaving because of joint several liability, we did offer BusinessFirst. And there are a few accounts that have gone over there. However, the other funds who shared the problem of, we don't like accessibility and I can't find a bond or another insurance company that I have other coverages with has asked me to have a rated carrier writing my workers' comp, the lack of a rating both for the Fund and BusinessFirst have also pushed some accounts in a different direction. And frankly, the structure that we're proposing gives us an opportunity in a post-conversion world, to apply for a rating for RetailFirst.

But the differentiation has really come through underwriting guidelines. Folks who may have some sympathetic interest to retailers, artists and contractors, none of the heavy contractors, but certain types of artists and contractors have found a home in BusinessFirst given those underwriting criteria. Accounts that are too small to meet the underwriting criteria of the Fund, they found a home in BusinessFirst. But it was really to be complimentary, not competitive to the Fund.

Much like many other insurance companies will have several public companies, if you will, they'll maintain several license companies in order to accommodate certain lines of business. In some cases, you'll see them form a company for their very high risk accounts. Our board is pretty risk versed, so our separate companies are very low risk accounts. But in fields and underwriting areas, it will not be permitted under the Fund.

MS. WESTCOTT: So, there was no affirmative marketing towards your members to move them to BusinessFirst?

MR. PETCOFF: No.

MS. WESTCOTT: Okay. The reason I ask that, and that becomes important to me and to all of us in this proceeding is that if that were the case, then obviously the next question, why didn't that work and why is a conversion of the SIF to a private entity better? But if that is not the case and you affirmatively say so in the --

MR. HANSELMAN: I would say it's working so well, we have, as you see, per our plan of organization maintained that sister company relationship because it does work very well. There are two separate markets. Just like Coca Cola's got Coke and 7-Up, that's what we're doing here.

MS. WESTCOTT: Okay. And you will continue that type of arrangement after conversion separate -- different underwriting guidelines, different targeted type businesses that will be maintained between the two companies?

MR. HANSELMAN: Yes, ma'am.

MR. PRENTISS: Did the trustees solicit input from the members of the Fund with regards to this conversion?

MR. PETCOFF: Yes. Although I can't say that we did a formal -- there wasn't a formal survey. There's not a written document. But we talked to our members quite a bit.

MR. NISSEN: We talked to a lot of the agents, too. We probably talked to 35 or 40 of the average agents. And they have been unanimous for this.

They're finding the accessible issue is becoming bigger and bigger and more of a profit. And we've had very strong support.

MR. PRENTISS: Could you state your name, for the record?

MR. NISSEN: Nis Nissen. I'm sorry.

MR. PRENTISS: Thank you.

MS. WESTCOTT: Also, isn't -- am I correct in that there is an association, a retail association that is also -- has some interaction with the Fund; is that correct?

MR. PETCOFF: Yes. The Tallahassee based Florida Retail Federation is the sponsor of and has been since 1979.

MS. WESTCOTT: Okay. I'd like to ask a little bit about that association or the relationship between those entities. Because it would seem to me that would be some place where you would seek input from members regarding such conversion. And if you did so, can you elaborate, please, on that relationship and then any sort of reaction regarding the conversion?

MR. PETCOFF: Sure. Well, we have to go way back in Florida history when self insurance funds first started.

MS. WESTCOTT: I like history.

MR. PETCOFF: Me, too. Back, I want to speculate it might have been 1950's, workers' comp market had eroded terribly in Florida. And trade associations stepped up to try and find alternative market places for their members. Certainly the high risk organizations like roofers associations and others had some difficulty with workers' comp, and so this mechanism of the self insurance fund was born through the legislature. And the early enabling law required that there had stated that two or more employers with common interest may join together their assets and liabilities to fund their workers' comp line or workers' compensation obligations. And that common bond over the years became generally accepted as association in a modified trade association.

And for a number of years in the 1950's through the 1970's, self insurance funds were relatively limited to a few specific industries. And they were very vertical in their membership. The roofers association was very narrow, and they continue to this day. It was narrow and you understood if you were a roofer, the only way you could get into the fund was to join the Florida

Roofing Association.

MS. WESTCOTT: I like to call them homogenous groups.

MR. PETCOFF: Thank you. Homogenous and heterogenous. And that stayed that way until Gil Waters pushed the envelope a little bit with the Gulf Coast Builders Exchange. And Gil petitioned the Department and the Legislature and others, pretty soon there was a slightly broader acceptance and definition of what constituted that common bond. And when the Gulf Coast Builders Exchange converted and became known as FCCI, suddenly you didn't have to be in this narrow homogenous band, you could be across several --

When the Florida Retail Federation Fund was formed in 1979, that general interpretation of two or more employers was meant to be members of a bona fide trade association, and the Florida Retail Federation sought a mechanism whereby it could grow its membership. And it felt that it could grow its membership by forcing membership in a self insurance fund and then engaged back then some consulting to create and subsequently administer a fund for them. That program has continued uninterrupted since. And the relationship by and between the Federation and the Fund and Summit has been a very good one, a very successful one. The Federation has grown and prospered exponentially. And during those years when premiums were sky rocketing and membership was growing and budgets were growing, they enjoyed very good times. In the last four or five years, is -- I think it was Tom Maida coined the phrase as our members were voting with their feet when they were moving out. We've seen a compression to our top line. That compression has also resulted in some compression to the Federation's line.

I can tell you that since 1979 to current, there has been a representative on the Florida Retail Federation board that has also been on our board. And we have had a pretty close relationship since then, and I think continue to have a pretty good relationship today.

MS. WESTCOTT: Is there any financial relationships or any monetary --

MR. PETCOFF: They get membership dues. Because you have to be a member to get into the Fund. And they're paid a licensing royalty fee. So, yes.

MR. HANSELMAN: -- of the Florida Retail

Federation has indeed been so strong, you will see in some of the documentation that we give to you actually that they have -- it's important for us to build that relationship with the management team with the FRF, but also the membership. And very important, two aspects of that, and we have actually been in discussions with the Florida Retail Federation and the membership in working through this same process. And like I said, the documentation that you have, there's an endorsement from the Florida Retail Federation, the association itself, and we're actually going to be sending out proxy -- getting approval of the membership as well, so the membership will have one final chance to say, yeah, we believe in this program, you've done a lot for us and we actually approve it. So we're actually making a huge effort to reach out to the FRF membership to make sure that they understand what the transaction is all about and they approve the transaction.

MS. WESTCOTT: Will the licensing and royalty fee continue after the conversion?

MR. PETCOFF: I don't know. And it's not because I don't know, but we had to work through some of the rules within the DOI.

MR. MAIDA: I think the current intention is to negotiate a licensing royalty agreement so that RetailFirst going forward will be able to use the marks and names of the Florida Retail Federation in its marketing. But, of course going forward, RetailFirst will not be able to require membership in the Fund, so that certainly goes away.

MR. PETCOFF: Our general attitude has been to try and be as consistent post conversion as we were pre conversion. But very little or no noticeable change to the outside world except that the member is going to be free from joint several liability. And at the end of the day, we'll have an entity that may have an opportunity to seek rating, which solves the problems for our members when they're attempting to get umbrella or other coverages. And hopefully everything else remains as neutral as possible, as neutral as the rules and the statute will permit.

MS. MOSTOLLER: If you had to analyze that amount that's paid to the association, what would that be?

MR. PETCOFF: One and a half percent of earned only premiums.

MS. MOSTOLLER: Do y'all have a contract between --

MR. PETCOFF: It's a licensing royal agreement.

MS. MOSTOLLER: It's an agreement, okay.

MR. PETCOFF: And it caps. Pet, the cap is 2.2?

MR. CONWAY: 2.25 million.

MR. PETCOFF: $2.25 million is the cap.

MS. MOSTOLLER: Are you near that at this time?

MR. PETCOFF: No. The Fund's current top line as I mentioned has been compressing considerably, we're probably now down to south of 70 million, 65 million.

MS. SIPE: 63.5.

MR. PETCOFF: $63,500,000.

MS. MOSTOLLER: Can some of that be attributed to the rate decreases --

MR. PETCOFF: Sure.

MS. MOSTOLLER: -- in the past five years or so, it's like 60 something percent?

MR. PETCOFF: Yeah, 50 percent. Yeah, 50 plus percent of rate decrease, but if you take our member account, our member account is down by --

MS. SIPE: 25 percent.

MR. PETCOFF: 25 percent.

MS. MOSTOLLER: Thank you.

MR. PRENTISS: It's our understanding that under the plan, RetailFirst Holdings will pay dividends to its shareholders which includes RetailFirst Mutual Holdings, officers, directors, and outside investors, but there's no intention to pay such dividends to the members of RetailFirst Mutual Holdings; is that correct?

MR. PETCOFF: I don't think so. No, our intention is to pay to the policyholders dividends when profits permit.

MR. HANSELMAN: Distinguish between common stock dividends and moving up stream and actually policyholder dividends. There's no intention of common stock dividends moving up stream. There is every intention to maintain our policyholder dividends through our dividend plans that don't, of course, guarantee. Of course, Libby's kind enough to review our application for dividend approvals, so we have to go through that process, but there's no intention for common stock dividend moving up stream.

MR. PRENTISS: According to the proxy statement as we read it, RetailFirst Mutual

Holdings will not pay distributions or payments of income dividends or profits directly to members except in the event of a dissolution or liquidation; is that correct?

MR. MAIDA: Could you -- could you read that --

MR. PRENTISS: Yeah, I will.

MR. PETCOFF: The holding company.

MR. PRENTISS: Right. The RetailFirst Mutual Holdings will not make distribution or payments of income, dividends or profits directly to members except in the event of a dissolution or liquidation.

MR. PETCOFF: Right.

MR. PRENTISS: That's correct?

MR. PETCOFF: Which is the same position that the member's in now.

MR. PRENTISS: Okay.

MR. PETCOFF: So the dividends at the policyholder level will continue to --

MR. PRENTISS: It's the same, there's no change.

MR. DOMONDON: So in other words, the only opportunity for the members to get distribution is if the mutual holding company is dissolved? And that is the same position that you have right now with SIF -- Fund?

MR. PETCOFF: Yes.

MS. THOMSON: How will the dividends change from what they've been getting over these years to after the conversion?

MR. PETCOFF: They shouldn't change. Assuming that the profitability of the Fund remains consistent, then the dividend patterns will remain consistent.

MR. HANSELMAN: And please understand our dividend plan is just like all other insurance companies out there. We reevaluate them every single year based on rate, you know, competitiveness in the market place, our financial structure, et cetera. So they're going to be adjusted every single year, but our idea of a dividend plan going to policyholders will remain unchanged and I suspect the dividend tables that you've probably seen and approved will remain somewhat similar.

MS. THOMSON: Okay.

MR. DOMONDON: Will the way the dividends -- of dividends calculated right now for the Fund, will that remain the same?

MR. HANSELMAN: The methodology will remain the same.

MR. DOMONDON: When the company's --

MR. HANSELMAN: That's our intention.

MS. MOSTOLLER: You mentioned it's not your intent to have dividends, stockholder dividends, then why does the plan contemplate outside investors and I think part of your plan is to go out to markets, have additional capital brought in, you know, depending on market conditions. So why if it's not your intention to do so, why is it stated so in the plan? It kind of seems inconsistent to me.

MR. PETCOFF: Not really. It's just because the future is unknown. And what we're trying to do is develop a plan that has a degree of flexibility or present to you a plan right now that has a degree of flexibility that allows us to respond to what those future needs may be. We have no plan at this point to go out and issue stock or do any of those other things. But there may come a time when it could be advantageous as a capital raising mechanism to do so. And we would simply like to have the pieces in place. Kind of like having air bags in a car. You know, if you don't plan on getting in a wreck, why do you need air bags? Well, we don't plan on needing this, but, you know when you do some day, it would be, we think, in the best interest of the members for us to be able to respond and react to those market needs quickly. And rather than come to you piece meal every so many years and say, oh, we've had a change of mind here or a change of mind here, what we tried to do is task our experts to come up with a plan that would provide a degree of flexibility for this market so that we can keep going back to basic premises, what's in the best interest of our members and how do we maintain our mission of providing a stable, long-term, financially secure workers' comp market. And so we think flexibility is a big part of that.

MS. WESTCOTT: But if I'm the -- I'm Joe Policyholder out there and I've been getting a distribution check, I'm still going to get it going forward? It's still going to look just like it did before any of this happened?

MR. HANSELMAN: Yes.

MR. PETCOFF: Yes.

MS. WESTCOTT: Okay.

MR. HANSELMAN: And normally that distribution check is the policyholder dividend plan.

MS. WESTCOTT: Okay.

MR. HANSELMAN: That's assuming they maintain that policy with a dividend plan which I assume that they will. They will continue to get the same dividend they always have.

MS. WESTCOTT: Is there some sort of -- I mean, you'll have to forgive me because I'm a little weak on the forms here, but is there an affirmative duty on their part to do something to make sure that stays in place or it's just a part of their policy?

MR. PETCOFF: Gets renewed.

MS. WESTCOTT: Okay.

MR. PRENTISS: There is an analysis of alternative transactions in the plan. We don't see that it included an alternative of the Fund converting into a mutual company. And then subsequently -- subsequent de-mutualization where members would have an opportunity to receive cash and shares of stock of the converted company. Was that ever considered as an alternative?

MR. PETCOFF: Well, yeah, but it doesn't seem to make sense to stop writing their workers' comp. I mean, our mission has been for -- since 1979, to provide a stable workers' comp market. That's what the company was formed for. We've done that. We're healthy. We're stable. And we think it's just prudent and in their best interest to continue that market place for them going forward.

MR. DOMONDON: But we still believe that that option or alternative should be included in the disclosure. What you have is just a -- one of the alternative is to convert to a nonassessable mutual, that's it, it ends there. There's no alternative presented where the Fund can convert to a nonassessable mutual insurance company and de-mutualize, that way it will give an opportunity to the members to receive cash or stock of the company. Which at this time it might -- you know, it might be attractive to the members given the economic situation right now.

MR. HANSELMAN: The layout of those plans of action is really based on, as Tom said, the premise that we wanted -- you know, to follow our strategic mission was to offer a vital market place to our members in the future. The option of basically dissolving and sending out capital to the members shrinks their surplus base and does nothing to support a growing market place. It would be just doing the opposite. So we're thinking about the plans that we laid out, we're thinking of the Florida Retail Federation Self Insurance Fund and BusinessFirst Insurance Company, as an ongoing viable entity that will continue to grow and thrive. To offer members cash as opposed to keep them invested as a member means that once again, we would be reducing our surplus and thereby reducing our writings and actually reducing the financial stability of the organization, not improving it and growing the organization.

MR. DOMONDON: But then you can still recapitalize?

MR. HANSELMAN: Lance, that's very expensive equity capital to employ. Might that happen in the future, I guess anything could potentially happen, but it's a very inefficient use of going out to the market plus and issuing equity stock and trying to recapitalize. And also fraught with a lot of risk. If we did that, we would be subject to the -- Pat could probably explain this in greater detail, but that would be subject to a little bit of risk in the open market place. We don't know what the value would be. We would have the potential of actually having an IPO that didn't actually work, and so we'd be promising something to the members that we couldn't even actually do. So it's a very risky proposition.

MR. DeLACEY: Any potential value that the members have from their membership rights that could possibly be realized in the de-mutualization are completely and totally preserved in this reorganization and available for the board to look at in the future. Should the board wish to mention that that is a potential alternative in the proxy statement so that members know that that's there, that might be a good disclosure, but I'm not sure whether that's there or not, but that's certainly an alternative. It could be disclosed in the proxy, and it is certainly an alternative available.

MR. DOMONDON: I really would like that to be in the disclosure as an alternative.

MR. PRENTISS: Will there be a legal opinion indicating that the proposed steps to be taken to the reorganization is legal under Florida law?

MR. PETCOFF: That's yours.

MR. MAIDA: We have provided that opinion to the board of trustees. Certainly provide a verbal opinion that the steps that they are taking, if this transaction is approved by the Office, and if it is approved by the members under the procedures that we've set out, will be legal and valid under Florida law.

MR. PRENTISS: Thank you. What do the trustees believe the benefits of the reorganization will be to the members of the Fund? We've heard benefits to the Fund certainly. And now could you focus on benefits to the members, the individuals?

MR. PETCOFF: Well, first and foremost, their voting rights are generally preserves, so their post conversion ability to select their board is preserved. They are free from unlimited financial risk by virtue of joint several liability, because you know, the accessible program of the self insurance fund says that the last man standing with any money gets to pay all of the bills. So if you were the last person that had in any cash in your pocket and the Fund were to go completely upside down, they would have tremendous financial liability for that assessment. So free from joint and several liability is clearly a benefit.

They will end up with a -- they will continue to have, as they did in the pre conversion, a very high touch, hands on, high service workers' compensation market that has been dedicated for more than 30 years to giving them stability in the market place. We have not reacted to the ups and downs of the market place in the last 30 plus years by doing foolish things that are on our surplus and those same kinds of underwriting disciplines, claims disciplines will continue, so they're going to have the same high quality program without the unlimited financial risk while maintaining their voting rights and maintaining their ownership rights. It's a very positive move.

MR. PRENTISS: What do the trustees consider to be their risks of the reorganization?

MR. PETCOFF: That you won't approve it.

(Laughter.)

MR. PETCOFF: There is -- I guess there's potentially some tax risks that we would navigate through. Excess profits.

MR. HANSELMAN: I think we said before, the excess profits, that's not really a risk, that's an issue that we need to deal with, but not a risk per se. The loss of future investment income, not a risk but an issue we need to deal with. Once again, I think the risks of not doing anything far out weigh any potential risk of the reorganization.

And once again, we had a very difficult time figuring out exactly what those potential risks might be. There's some issues, there's some transaction costs, there's the excise tax, the future investment income, those are issues, not necessarily risks.

MR. CONWAY: If I may add one thing, the risk of the excess profits tax is one thing. But what happens with the excess profit tax is that that goes back to the policyholder, so that risk actually in some cases can become a benefit because of the future Fund as RetailFirst earns excess profits, it would go back to the policyholders where that's not the case right now.

MR. MAIDA: The other thing I would say on the tax issue, I think I mentioned this earlier, but our firm is prepared to issue an opinion for the benefit of the current Fund members, this transaction will not result in federal income taxation to the members.

MR. RAINEY: Jeff Rainey with the Office, it may require you to speculate a little bit, but do you feel that any of your members may decide to leave the organization due to the conversion? Or do you feel most of them will continue on?

MR. PETCOFF: No. I think that they'll be cheering.

MR. PRENTISS: For the record, would you explain the steps the Fund must go through to convert to the stock insurer?

MR. PETCOFF: Wes? I think that would be Mr. Strickland's --

MR. STRICKLAND: I think I can do this from memory. The Florida Retail Federation Self Insurers Fund is a group workers' compensation self insurers fund organized under 624.4621, Florida Statutes. In order to achieve the organizational structure that we've presented, we can't simply convert the Fund in one step to a mutual insurance holding company with a stock insurer. Rather, we have to engage in a series of simultaneous but ordered transactions. And there's precedent, we've done similar types of things in the past. Not one quite like this, but the steps go something like this.

The group self insurers fund will convert to an assessable mutual insurance company, the assessable mutual insurance company will immediately be converted into a nonassessable mutual insurance company. The nonassessable mutual will then be converted into a stock insurance company. At the same -- next, but at the same time, articles of incorporation of the mutual insurance holding company will be filed and will become effective, intermediate holding company articles of incorporation will be filed and become effective, mutual insurance holding company is RetailFirst Mutual Holdings, Inc., intermediate company is RetailFirst Holdings, Inc. The new stock insurer that results from these intermediate steps and then convert it into RetailFirst Insurance Company.

And essentially what's going to happen is the initially -- immediately upon the conversion, 100 percent of the shares of RetailFirst Insurance Company will be owned by the mutual insurance holding company, and then there's going to be an exchange. There's going to be the insertion of an intermediate holding company, and at the same time, there's going to be a movement of the subsidiary, BusinessFirst Insurance Company, which is currently a 93 plus percent subsidiary year of the Fund, is going to be moved upwards to be a sister company of that entity and another wholly owned subsidiary of the intermediate holding company. So we're going from a vertical structure to a side by side structure where the intermediate holding company owns 100 percent of both insurance companies.

And there will be a share exchange in order to make that happen. Because BusinessFirst Insurance Company is not 100 percent owned by the Retail Federation Self Insurers Fund. Instead, there are some of the existing trustees that will continue on as directors, own a minority percentage of BusinessFirst Insurance Company, currently around 7 percent. There will be an exchange that will give them a substantially smaller, less than 1 percent of the shares of the intermediate holding company, RetailFirst Holdings, Inc., following the conversion. Again, that happens in the order of transactions after the conversion into the mutual insurance holding company. The next thing that happens is the share exchanges movement of BusinessFirst up. It's really just the next transaction up.

In addition, we are forming another entity to be again a wholly owned subsidiary of the intermediate holding company, RetailFirst Holdings, Inc., RetailFirst Services, LLC. This entity is being formed at this point really as a matter of convenience, but nevertheless is a step that's being formed as a wholly owned subsidiary of the intermediate holding company in order to facilitate more easily future services, administrative services of some sort that can be provided to affiliates or nonaffiliates even. But we're just creating the structure, moving the subsidiary, BusinessFirst, up to the same level as the newly formed stock insurer resulting from the conversion creating an entity which is essentially going to be a shell entity, you know, until there are actual plans for it. But you know, the structure that you see and we've described we believe is flexible, provides organizational flexibility and efficiency for future plans.

MS. WESTCOTT: So, I just want to follow up, RetailFirst Services, LLC, is going to be an empty shell basically that does not have any current function between the two insurance companies and holding companies?

MR. PETCOFF: That's correct.

MS. WESTCOTT: Correct?

MS. MOSTOLLER: Do you contemplate BusinessFirst having to file a form A as a result of this transaction?

MR. STRICKLAND: We will request a waiver or final form A to be included in this process. I mean, you've essentially seen everything. We have to document the exchange, and that's just the way our final tax review of the transaction, just to ensure that the tax -- we've determined -- we're to a point in our review where taxation of the members is neutral. We're just trying to make that the structure we've gotten again is not going to be taxable to anybody. So we're just about done with that. And then you'll see a basic document that will reflect what we've already told you we're going to do. And we're going to ask you either for a waiver of the form A, a separate form A, because you've seen what the plans are. Or if not, we can file a form A almost immediately as soon as we have that firm agreement.

MS. MOSTOLLER: Okay. I'd like to just make a comment, just an observation, I think most of us sitting around this table did not take away from reading the proxy and the plan for reorganization, the fact that the members are still probably going to be getting some sort of dividend. So maybe there needs to be some -- I know you can't promise, I understand all that, but you know, we were all concerned in reading this, that that was just going to go off the table. There's going to be shareholder dividends now as a result of restructuring, introduction of outside investors, so I think all of us were very concerned that maybe what has been good for the members is going to be gone now. And the fact that all of us here, I think -- pretty much, I think I can speak for most of us here at the table, you know we thought differently than what we're hearing from you guys today. So maybe some work can be done that might be beneficial to the members as they read this, too.

MR. CONWAY: It's an augmentation of the language with regard to the conversion of the policies and then allo the rights and, you know, the --

MS. MOSTOLLER: I.E. --

MR. CONWAY: -- expectation of dividend programs, you know, our expected to continue.

MS. WESTCOTT: I do think you'll need some affirmative statement about the dividend programs, that you anticipate that they will continue and that is the plan that they continue at this point. I don't think any of us took that away from reading the materials that that was the case. And generally what happens in the conversion process is, you know, the policyholder gets those rights now. Up in a higher level of the company, it's more of a shareholder type right, that you just don't see the same type of monetary benefit from that fund, generally gives. So if those -- that is going to stay in place, I think that alleviates many of our concerns about the protection of those policyholders and preserving as closely as you can, their interests and their -- you know, what they -- because the first question that will be asked will be, well, why would you let them do something like that if we don't -- if now we're not going to receive the same type of benefit or the same type of structure, the same type of program that we're used to having. So that is always the -- that was kind of paramount to us in this discussion that that was fleshed out. So I do think that probably that does need to be better discussed and addressed so that they don't have the same question.

MR. MAIDA: We don't want there to be any question either, so we'll absolutely work with staff to make sure that the proxy statement makes that clear.

MR. PETCOFF: Because that has always been our intent.

MR. MAIDA: We'll absolutely make that clear.

MS. WESTCOTT: Well, thank you. That does, I think, alleviate many of our concerns with the transaction in general. We still have some other questions. But generally speaking, I think that that's one thing that we're very committed to is to make sure that the policyholder and the members of the SIF do have that expectation that they will receive the same type of interaction, you know, as going forward as closely as they can considering that now it's been converted.

MR. HANSELMAN: That is our goal.

MR. PRENTISS: According to the plan, reports believes that the mutual insurance company holding structure and enhanced access to capital will better enable it to develop innovative products, invest in technology, and achieve economies of scale, that are expect to lower operating costs for members and expand the range of products and services offered. Now, at this point, it's our understanding that Summit Consulting is already providing all the services to the Fund. Can you elaborate on how this is going to take place with the change?

MR. PETCOFF: Summit will continue to provide those services under the same administrators contract, same fee, same terms, same conditions, same underwriting guidelines. We don't really anticipate any change that the member's going to feel other than perhaps the letterhead with a name change.

MS. WESTCOTT: Who owns Summit? Can I ask -- tell me a little bit about Summit and how they interact, because I want to know that.

MS. SIPE: I'm Carol Sipe. I'm the president of Summit Consulting. Summit is a 100 percent wholly owned subsidiary of Liberty Mutual. And we serve the Fund today as the administrator with a TPA contract. So our relationship with the Fund is contractural. We do that on a fee basis based on --

MS. WESTCOTT: You have an independent third party, no affiliation with the insurance company position?

MS. SIPE: That's correct.

MS. WESTCOTT: Excellent. Thank you.

MR. PRENTISS: The plan provides that one of the reasons for the reorganization is the ability to use stock in making acquisitions. The ability to issue stock may allow RetailFirst Insurance Company to pursue transactions that are tax free to perspective sellers. Why can't this be accomplished through BusinessFirst?

MR. PETCOFF: Probably could. But the two companies have different objectives serving different customer groups and operating as sisters.

MR. HANSELMAN: I think another issue also is the using stock as acquisition currency requires that there be value in that stock. BusinessFirst Insurance Company right now is a smaller entity and the stock would present less value to acquire targets that might be of interest to us. The Florida Retail Federation Self Insurers Fund has greater value. Turning that into a stock company and issuing equity gives you more acquisition currency to purchase the targets that would make sense. Again, purchasing a target in the future is not our intention, but it gives us that flexibility to do so. And having the financial wherewithal, the company, Florida Retail Federation Self Insurance Fund allows the members to do exactly that.

MR. PRENTISS: Could you explain how an acquisition would be a tax free transaction to perspective sellers?

MR. MAIDA: To perspective sellers of --

MR. PRENTISS: Right.

MR. PETCOFF: It would constitute a like-kind exchange of stock for stock. It wouldn't trigger a tax event to seller until such time they sold the shares of stock that they received.

MR. PRENTISS: So are there any plans for acquisition in the three years?

MR. PETCOFF: No.

MR. PRENTISS: The plan states that one of the reasons for reorganization is the increased access to capital. Aren't there other options currently available to the company to raise capital like surplus notes, outside borrowings or selling stock in BusinessFirst?

MR. PETCOFF: Outside borrowings are really not a viable option for self insurance funds. And actually surplus notes we discovered when we went in search of surplus notes, there's just not really a viable market for surplus notes for self insurance funds at a cost that makes any reasonable amount of sense. So the nature and structure of the Fund makes it very difficult to access capital markets should we need to. We've been blessed that we haven't needed to, but the last couple of years and watching this economy, we don't have -- maybe 20/20 hindsight, but our forward vision isn't very good. And as we look forward, we don't know what the future brings and we thing there's some comfort lever for us and for our members to able to access capital markets. Self insurance fund form of organizations simply does not permit much flexibility.

MR. PRENTISS: The plan states that one of the reasons for reorganization is for greater flexibility for expansion into other states and lines of business. Could this not be accomplished through BusinessFirst?

MR. PETCOFF: It could. And, in fact, BusinessFirst holds license in some other south eastern states. The Fund does not currently hold licenses in any other states. And one of the needs some of our members have, particularly members with the business operations in -- well, in this part of our state and all along the northern border of Florida, where it would not be uncommon to have operations and/or employees in Georgia or Alabama. So by converting, it does give the Fund an opportunity. RetailFirst -- seek licensing, provide coverages, serving members of those other states which is not currently possible.

MR. PRENTISS: Who will be the owners of RetailFirst Holdings following the reorganization?

MR. PETCOFF: Intermediate? The intermediate holding company?

MR. PRENTISS: The intermediate holding company?

MR. HANSELMAN: The owner of RetailFirst Holdings, Inc. would be a mutual holding company.

MR. CONWAY: Which is the members.

MR. HANSELMAN: They own 99 percent of it.

MR. STRICKLAND: And the minority --

MR. HANSELMAN: And then the minority shareholders would own 1 percent.

MR. PRENTISS: Okay. At this point, the members own all the membership interest in the Fund, correct?

MR. PETCOFF: (Nods head.)

MR. PRENTISS: But after the reorganizations, the members will not own 100 percent, because the minority shareholders of BusinessFirst Insurance Company will be issued shares in the RetailFirst Holdings, Inc. and shares may also be issued to outside investors, correct?

MR. HANSELMAN: Yes.

MR. PRENTISS: So would you explain what ownership interest the members will have in RetailFirst Holdings, Inc. and RetailFirst Insurance Company following the reorganization?

MR. HANSELMAN: The members will own 99 percent of Retail Holdings, Inc. and that in turn will own 100 percent of RetailFirst Insurance company. The reason that they own 99 percent after the transaction is complete is that BusinessFirst Insurance Company is getting basically added to the pot. So there's value being added to that pot which the members did not originally have. And so based on the work of Raymond James, they said the fair thing to do for the members and the fair thing to do for the members of BFIC would be to split that ownership 99 percent members owned and 1 percent to the minority shareholders.

MR. PETCOFF: Which was done on a formula basis essentially, prorate formula basis.

MR. PRENTISS: Why are BusinessFirst Insurance Company's ownership, why is it being transferred to RetailFirst Holdings, Inc. instead of RetailFirst Insurance Company?

MR. HANSELMAN: The reason for that was to create sister companies. And it does a couple things. The primary one is really once again financial flexibility. You have two sister companies in terms of movement of capital, if capital is required, you wouldn't necessarily have to have RetailFirst Holdings issue stock or equity, for instance, and then push it down two levels within that organization. So by having sister companies, if RetailFirst Holdings needs to issue stock or issue debt or something like that, the capital is easily placed into those two sister companies as opposed to going to multiple steps downstream. There's a perception issue perhaps on the marketing -- too, to say that these are two sister companies and one is not necessarily better than the other, they're just equal.

MR. PRENTISS: Okay. And why will -- oh, wait. I'm sorry. How will the minority shareholders' pro rata share of the common stock of RetailFirst Holdings, Inc. be determined?

MR. PETCOFF: Basically we took the surplus of both the companies and established it on a pro rata basis.

MR. DOMONDON: In terms of value -- in terms of value of the -- when this is recalculated on a pro rata basis, in terms of value that the minority shareholders will receive, will that be prorated as well? Because what would happen is the -- although the shares of the -- although the shares of the minority shareholder of the BusinessFirst will be reduced -- will be reduced, it will now own the insurance -- the Florida Retail Insurance which is a larger company surplus. So would that not be valued because the Florida Retail Federation Insurance Company will be higher?

MR. PETCOFF: It's reduced significantly.

MR. CONWAY: 7 percent and 1 percent. If you look at the chart, currently the outside stockholders own 7 percent of BusinessFirst, and now at the higher level, they're going to own 1 percent of the RetailFirst Holdings which is, you know, the dilution of the percentage they own. Because they're going to be owning 1 percent of a bigger item.

MR. DOMONDON: Okay. It's diluted to 1 percent. But now it owns the stock of the -- or it will own the stock of Florida Retail -- Florida Retail Insurance Company which is 123 million in surplus, so in terms of value, how is that --

MR. CONWAY: There shouldn't be any change in the value of what they own based on the pro rata calculation that Raymond James did. And I would assume that that would be updated at the date of conversion for whatever the actual latest surplus numbers are so that, you know, there's a nice firm pro rata calculation.

MR. HANSELMAN: And I think to your point, too, you're talking about, okay, once the transaction is done, minority shareholders own 1 percent. Well, that's 1 percent of a pretty big company and how does that value then change? Do they get some sort of lift or benefit as a result of owning 1 percent of this bigger entity as opposed to 7 percent of BFIC?

MR. DOMONDON: That's the point I was trying to make.

MR. HANSELMAN: And the answer is, first of all, I hope the minority at 1 percent and all the others at 99 percent, their increases are valued tremendously, first of all, because that is what we're in business to do, to increase their value. Do they get a benefit as a result of that? I don't think so. Everyone's starting at the same point to say, hey, here's the value at this point in time and we're hoping that the collective value of those companies, BusinessFirst Insurance Company and RetailFirst Insurance Company, continue to grow and they will continue to have 1 percent of that. So there's not going to be an unfair movement of value between the minority shareholders and the owners of FRF, they will continue to have that same value as time goes on.

MR. CONWAY: I mean, it might be equated to say, the minority shareholders right now own -- say they own a million dollars in BusinessFirst, they're going to own a million dollars of the combined entity. You know, say assuming 100 million in surplus. So neither party gets any change in the value of the ownership, it's just because it's split between a bigger piece, 7 percent's got to go down to 1 of the BusinessFirst owners.

MR. DOMONDON: Thank you.

MR. RAINEY: Jeff Rainey, for the record. You mentioned Raymond James in your discussion, were they involved in the calculation?

MR. RITTER: Raymond James reviewed what the company did to determine fairness of the transaction. And, indeed, we recalculated the pro rata exchange. We're talking about it as 1 percent, it's less than 1 percent. It has been rounded to 1 percent for this presentation, but it's -- yeah, it's .61, yes. And I do believe that the question that Dave just mentioned, the minority's book value, if there will, of their holdings, I believe that that is summarized in the company's response to the Department's questions as well. So that answer should be presented in that letter, I do believe.

MR. PRENTISS: Under the current structure, the members have 100 percent of interest in the company. The company's run solely for the benefit of the policyholders, and its surplus is held for the exclusive benefit of its policyholders. Under the proposed structure, if outside investors buy into the organization, the membership interest could drop to 51 percent and the organization may no longer be run for the exclusive benefit of its policyholders, and the yearly dividends from the Fund's operating profits that the members have enjoyed in the past may no longer be available. Would you discuss how this proposal is therefore fair and equitable to the members given this information?

MR. PETCOFF: We don't have any of that --

MR. HANSELMAN: If equity was issued and the members then -- their ownership went down to 51 percent, that would be because there's equity coming in. It would not diminish the value of that 51 percent, you're just getting now a smaller piece of a much bigger pie. So have they lost value? No. In terms of the owner -- the ownership, they still would possess 51 percent control of the company, and so they would have then -- enjoy the same position they always have of having ownership control of that company. So that would not be -- it would not be diminished either. On the final point of actually dividends, once again, you have to make a distinction between common stock dividends and policyholder dividends. Just because they're now 51 percent owners of that company doesn't diminish the policyholder dividends that they would normally enjoy. In fact, those would go on. And in fact, I would say that they're actually improved because you've actually brought outside capital into the equation, stabilized the company or actually increased the financial stability of that company so that you could issue dividends if you wanted to as well.

MR. MAIDA: The other thing I would add is in the event of that kind of transaction, then obviously form A would be required and we would be back in front of the office for review of that transaction. Although you know, again as we say repeatedly, that transaction is not contemplated right now.

MR. PETCOFF: And actually it's really a protection, because can you really imagine in the market place anybody investing time and money and equity to achieve 49 percent interest. All you've done is sure up all the equity in the company and throw in a tremendous amount of cash with absolutely no control. So it's really kind of a built in protection for the members.

MR. PRENTISS: Thank you. Will the insureds who become policyholders of RetailFirst Insurance Company have the same ownership interest in RetailFirst Mutual Holdings, Inc. as the current members of the Fund?

MR. PETCOFF: Yeah.

MR. PRENTISS: How would the business plan of RetailFirst Insurance Company differ from the business plan of BusinessFirst Insurance Company?

MR. PETCOFF: Well, primarily RetailFirst is focused on Florida retail business and BusinessFirst is primarily focused on smaller accounts, artist and contractor accounts with licenses in Florida, Tennessee, North Carolina, and Kentucky. So the underwriting guidelines are different for both.

MR. PRENTISS: How many of the current policyholders of BusinessFirst Insurance Company have been former members of the Fund?

MR. PETCOFF: I'm sorry to say I don't have a number, but it would -- I'm sure it's --

MR. CONWAY: I would guess 100, less than 100.

MS. SIPE: It's very small.

MR. PRENTISS: Very small. When will the legal opinions concerning federal income tax and securities laws be available?

MR. MAIDA: Well, they will be available before the policyholders vote on the approval of the transaction.

MR. PRENTISS: And are you people going to be providing that?

MR. MAIDA: We will. Neither Wes nor I will be drafting it, we have tax lawyers in our firm if that elates your concerns.

MR. PRENTISS: That was a big concern to all of us up here.

(Laughter.)

MR. HANSELMAN: For the record, it concerns us, too.

MR. PRENTISS: Will there be any changes in the policy administration and servicing of claims following the conversion?

MR. PETCOFF: No, sir.

MR. PRENTISS: What is the current fee collected by Summit Consulting?

MR. PETCOFF: It's a fixed percentage. 14 percent of -- 14.5, I'm sorry. 14.5 percent.

MR. PRENTISS: And how much of the fee is allocated to operational percentages versus profit?

MR. PETCOFF: Yeah, I'd like to hear that from someone.

MS. SIPE: Recently it's all allocated towards operational expenses.

MR. CONWAY: With the rate decreases, it's been very difficult to make a profit servicing the business.

MS. SIPE: Yes. We're breaking even.

MR. HANSELMAN: I'm sure it's enough to keep the TPA business and do what they need to do to service the company appropriately.

MR. CONWAY: Right. I mean, we're doing it at -- we're making a small profit margin on it, but it's, you know, not --

MR. PRENTISS: You have to speak louder if you --

MS. SIPE: I just said small.

MR. PRENTISS: I heard.

MS. MOSTOLLER: So there's nothing in that agreement that ties to the profitable of the SIF, the Fund in anyway?

MR. CONWAY: Yes. There is --

MR. PETCOFF: There is a profit sharing --

MS. MOSTOLLER: There is profit sharing?

MR. CONWAY: Yes.

MR. PETCOFF: It is a retrospective look, and it's intended to reward underwriting and claims management and loss control. And it's a retrospective look that does pay some bonus -- it's a formula for bonus predicated upon outstanding results for the Fund.

MS. MOSTOLLER: I want to -- I just thought of something. On Summit Consulting, when we go through this process, if we approve the plan of reorganization, will we be getting a new agreement to evaluate and have the offices review? That would be something I guess we could include in the approval process then, that we look at that again.

MR. HANSELMAN: The MGA agreement?

MS. MOSTOLLER: Yes, it would be an MGA agreement as a TPA. So the TPA, yes.

MR. STRICKLAND: BusinessFirst already has an MGA agreement with Summit, so you can expect it would similar.

MS. MOSTOLLER: Similar. Okay. Thank you.

MR. DOMONDON: And that MGA agreement would continue after the reorganization with BusinessFirst?

MR. PETCOFF: Yes.

MR. PRENTISS: Following the reorganization, does RetailFirst Insurance Company plan to expand in other states?

MR. PETCOFF: No, sir.

MR. HANSELMAN: But once, that's something that -- the intention is not to do that, but the flexibility to do that is certainly there.

MR. PETCOFF: I presume your question meant immediately --

MR. PRENTISS: Well, plans. I mean, plans may be -- are there any firm plans?

MR. PETCOFF: No, sir.

MR. PRENTISS: Okay. How would the coverage and rates change from what the members currently have with the Fund to what they will have with RetailFirst?

MR. PETCOFF: They're both set by you guys, you'd be in a better position to answer that. I'm sorry, that's a flippant answer to a question and I apologize. The coverage and the rates will not change.

MR. PRENTISS: Do you have to be a member of the association to purchase insurance from the Fund?

MR. PETCOFF: Yes.

MR. HANSELMAN: Currently.

MR. PETCOFF: Currently you do, yes. Post conversion it would not be a requirement.

MR. PRENTISS: What role or input have you had from the association -- I'm sorry. Yeah, from the association with regard -- what's the association's role been with respect to the proposed reorganization of the Fund?

MR. PETCOFF: They've supported it. Beyond that, they haven't had much of a role. They're two distinct legal entities. Distinctly different policy boards, distinctly different missions. We have a friendly relationship. We ask for their support, explain why and they've given us a letter which has been submitted to you that offers their support of the conversion.

MR. PRENTISS: I'm going to change the topic. I'm going to talk about the priority subscription and voting now. It's our understanding -- I'm just ask you to acknowledge this, okay. The plan of reorganization has a section that says, quote, "There is no guarantee that the members of RetailFirst Mutual Holdings, Inc. will be entitled to priority prescription rights in any or all public offerings of stock of RetailFirst Insurance Company or any intermediate holding company." That's the quote. And we're just going to advise you that the office would require that priority subscription rights be guaranteed to the members as a condition of approval of the plan.

MR. PETCOFF: Okay.

MR. PRENTISS: Okay. We will also --

MR. PETCOFF: I guess counsel wants to huddle, can we have a minute?

MR. PRENTISS: Sure. Of course.

MR. MAIDA: If I could just comment. With regard to the National Grand Mutual Insurance

Holding Company system, if you're talking about similar commitments to what were made then, then I think we can agree to that. If you're talking about something else, we'd at least like to have a conversation with you so that we can understand as lawyers exactly what you're asking them to agree to.

MR. PRENTISS: Okay. We're not asking them to agree to it today.

MR. MAIDA: Okay.

MR. PRENTISS: We can talk about it.

MR. MAIDA: We're absolutely happy to talk about that topic.

MR. PRENTISS: And on a similar -- we also are going to be seeking to subject RetailFirst Holdings, Inc. to the investment limitations on part two, Chapter 625.

MR. PETCOFF: I'm not sure I know what those are.

MR. PRENTISS: Yeah. We --

MR. CONWAY: Can't invest in anything that the insurance company can't invest in. But since their investments will all be subsidiaries, I don't think there should be an issue with that.

MR. STRICKLAND: I think we can discuss that later. We had these same discussions with the last mutual insurance holdings company approval that we sought from the office, the National Grand Mutual Insurance Company reorganization. We had discussions on those issues and would like to have discussions with you about that later. Because the statutes do not require that to be the case. And so we'd like to table that for now.

MR. PRENTISS: Sure.

MR. STRICKLAND: But we acknowledge that you will be asking for that.

MR. PRENTISS: Okay. Very good. That's all they're asking right now. Members of RetailFirst Mutual Holdings, Inc. will have the right to elect the board of directors of RetailFirst Mutual Holdings, Inc. Please describe this election process. Please specifically include a discussion of how an individual becomes eligible to be voted upon by the members.

MR. PETCOFF: The election process will be the same as it has been for the past number of years. A nominating committee establishes a slate of nominees for the positions. The ballots are mailed, members are given an opportunity to vote yes or no or to write in candidates.

MR. PRENTISS: And will the members' voting rights change following the reorganization?

MR. PETCOFF: No, sir.

MR. PRENTISS: The plan describes the current membership interests to include, without limitation, the right to vote for the election of the trustees and on other matters, and to participate in distribution of surplus. Can you elaborate on what other matters might be that members could vote on?

MR. CONWAY: For example --

MR. PETCOFF: The reorganization.

MR. CONWAY: For example, this plan of reorganization or not.

MR. PRENTISS: Can't think of anything else, huh?

MR. MAIDA: Well, some of the other alternative transactions that were considered along the way may have required voting members as well.

MR. PRENTISS: Okay. Now, if the reorganization is granted, will the members have the right the vote on the following matters: Number one, the issuance or sale of stock in RetailFirst Holdings, Inc., RetailFirst Insurance, BusinessFirst, Retail Services, LLC, to the officers, directors, or employees of such entities whether it is part of a compensation package or otherwise?

MR. MAIDA: That's a multipart question.

MR. PRENTISS: It sure is.

MR. MAIDA: I'm not sure I got all of it. I can tell you this that in the event of any of those transactions, we as counsel would certainly review the legal requirements and the requirements of the office to make sure that they're fulfilled. I'm sure in some of the instances that you enumerated, Mr. Prentiss, votes is of the members of the insurance holding company would be required. I'm not certain that it would be required every single instance, but we would certainly obviously take a very close look at that if we engaged in those transactions.

MR. PRENTISS: Do members have the right to vote on the election of directors?

MR. MAIDA: The members will have the right to vote on the election of directors of the mutual insurance holding company.

MR. DOMONDON: But not on the directors of the subsidiary entities?

MR. MAIDA: True. That's right.

MR. PRENTISS: How about the compensation packages of the officers of those entities?

MR. PETCOFF: No change.

MS. MOSTOLLER: Will the members vote on that?

MR. PRENTISS: I'm sorry, do the members have the right to vote now?

MR. MAIDA: No.

MR. PRENTISS: No. And they won't have it under the new one.

MR. MAIDA: They have the right to throw out the board if they want.

MR. PRENTISS: Do they have the right to vote on the issuance of the sale of stock to outside investors?

MR. PETCOFF: I have to defer to counsel.

MR. MAIDA: I would have to give that some thought. I think it depends on form of the transaction and the amount of the stock that will be sold. So it's possible that the answer could be yes, and it's possible depending on the transaction, it could be no. Sitting here right now, I can't give you a complete answer to that.

MR. PRENTISS: How about an acquisition, a merger or other business combination of those entities, would that require a vote?

MR. MAIDA: I think in most instances the answer would be yes.

MR. PRENTISS: How about the formation of a new entity?

MR. MAIDA: At what level? For example, the formation of another subsidiary of the intermediate holding company typically what not require a vote of the members.

MR. DOMONDON: Okay.

MR. PRENTISS: How about the sale of any of those entities?

MR. MAIDA: The answer could be yes or it could be no. I can't give you a complete answer now.

MR. PRENTISS: How about amendments to the articles or the bylaws?

MR. MAIDA: I need to look at the provisions of the articles and bylaws to know that. If you give me a minute, I'll answer the question.

MR. STRICKLAND: Which entity?

MR. PRENTISS: Any of the entities. Which entity?

MR. DOMONDON: Of the insurance company and the RetailFirst Holdings, and RetailFirst Services, LLC, and BusinessFirst.

MR. MAIDA: Can we come back to that?

MR. PRENTISS: Yes. How about an increase in the authorized capital stock of any of those entities?

MR. MAIDA: Potentially with respect to the intermediate holding company, the answer may be yes. With respect to the other entities, potentially no.

MR. PRENTISS: How about if you wish to expand to other states?

MR. MAIDA: I would not expect that to be put to a vote of the policyholders.

MR. PRENTISS: Expanding the lines of the business?

MR. MAIDA: I would not expect that to be put to a vote.

MR. PRENTISS: Material change to the entities' strategies and financial business plans?

MR. MAIDA: That's a pretty broad question. It's difficult to know the answer to that without knowing what the strategic change was. But ordinary course changes in the strategy of the company I would not expect to be put to a vote of the mutual insurance company members.

MR. PRENTISS: Entering into material transactions, servicing agreements, would that require a vote?

MR. MAIDA: I would not expect the members to vote on entering into contracts with vendors nor do they do that now.

MR. STRICKLAND: Mr. Prentiss, I'll go ahead and answer the earlier question regarding amendment to the articles of incorporation. The RetailFirst Insurance Company articles of incorporation will provide that they may be amended by a majority vote of the shareholders of the corporation provided such amendment's approved by the Office of Insurance Regulation.

MR. PRENTISS: Thank you.

MR. STRICKLAND: The RetailFirst Holdings, Inc., which is the intermediate holding company says these articles of incorporation may be amended by a majority vote of the shareholders present or in person or by proxy at any annual or special meeting called for that purpose provided that the amendment has been recommended by an affirmative vote of at least two-thirds the board of directors and the full text of the amendment has been included and the new notice of the meeting, nothing herein shall prohibit the board of directors from amending these articles as provided by law.

And the mutual insurance holding company articles of incorporation provide these amendments or these articles of incorporation may be amended by a vote of the majority of the members present, in person, or represented by proxy at any annual or special meeting called for that purpose provided that the amendment has been recommended by an affirmative vote of at least two-thirds of the board of directors and the full text of the amendment has been included in the new notice of the meeting. Nothing shall prohibit the board of directors from amending the articles of incorporation as provided by law.

MR. PRENTISS: Thank you. When the vote is put for the reorganization, is it put to the members, is it going to be a majority vote?

(No verbal response.)

MR. PRENTISS: Do the people who vote against it, then their choice if they don't want it, but it happens anyway, they can just leave?

MR. MAIDA: That's correct. And I'll add that it's a majority of the members, not a majority of a quorum of the members.

MS. MOSTOLLER: Excuse me, is that not voting members, it's just members, the eligible members?

MR. MAIDA: That's correct.

MR. DOMONDON: So in other words, if you have 8100 members and only 1,000 voted yes, that would not be considered --

MR. MAIDA: That's correct.

MR. DOMONDON: -- a majority?

MR. MAIDA: Yes, sir, that's correct.

MR. DOMONDON: What would you consider majority, 51 percent?

MR. MAIDA: 50 percent plus one vote.

MR. PRENTISS: Would the members of RetailFirst Mutual Holdings have the right the vote on the issuance of additional shares of capital stock of RetailFirst Insurance Company and/or RetailFirst Holdings, Inc. in connection with a potential public or private offering of the stock?

MR. STRICKLAND: I don't believe directly they would.

MR. PRENTISS: Now, I'm going to change to talk about dividends and assessments. Has there ever been an assessment since the Fund commenced business?

MR. PETCOFF: No.

MR. PRENTISS: And has the Fund declared dividends to members out of its surplus funds?

MR. PETCOFF: Yes.

MR. PRENTISS: Now the Fund -- is it true that the Fund has experienced exponential growth in its surplus?

MR. PETCOFF: The Fund has experienced solid, consistent growth in its surplus.

MR. PRENTISS: I have no idea what exponential means.

(Laughter.)

MS. MOSTOLLER: In 2002, your plus, I think was around 28 million, today it's 123 million.

MR. PETCOFF: So it's been consistent and solid. Demonstrated prudent business practice and claims handling.

MR. PRENTISS: With that growth, however the amount of the dividends disbursed has declined as a percent of premium consistently since 2005. Would you explain why that has occurred?

MR. PETCOFF: Well, we have been conservative in our management of the Fund. And our dividend policies have been consistent in their application requiring first profits for the Fund, then profits individually for the members participating in the dividend plan. So we have established reserves in a consistent, but conservative way over the years. And in some cases, we get some reserve releases that might impact in some dramatic fashion. So it may be more timing than --

MR. HANSELMAN: There's a real financial consequence here, too. The dynamic is that with our dividend plans, you get -- the policyholder gets dividends based on the loss ratio achieved by that member. So we're trying to manage to make sure that we're only giving dividends to those that deserve it based on loss ratio. As the rates have declined over time, the loss ratio of all insurance companies including the FRF SIF has increased slightly. Along with that slight increase, the loss ratio has gone to a drop -- at a slight drop, I will say, in the dividends that are being send outdoors as well. So once again, the whole idea behind dividend plan is to give profits at a certain loss ratio. The loss ratio is increasing slightly because of the rate decline. The end result is the policyholder is basically paying in less into the Fund, but they're receiving a little bit less in terms of a dividend. Make sense?

MR. RAINEY: May I ask, do all of your policies contain this dividend feature or do you have some that do and some that don't?

MR. HANSELMAN: Our dividend plan, I think goes down to $1000 in premium; is that right?

MR. RITTER: 5,000.

MR. HANSELMAN: $5,000 in premium. So everyone below 5,000 in premiums has not received a dividend.

MR. RAINEY: And is that your plan to continue that structure post --

MR. HANSELMAN: It's our expectation. Below $5,000 in premium, the loss ratio gets fairly volatile, so that would not be a good financial plan for us to create on behalf of the members.

MR. PRENTISS: The Fund has represented that to the extent that all members of a group self insurers fund under section 624.4621 are eligible to receive discretionary dividends. Their agreement for coverage in the SIF would be described as having a participating feature. Now, if the Fund is converted to a stock insurer, 624.4621 doesn't apply any longer. Will you have a specific written provision for providing policyholder dividends?

MR. MAIDA: We intend to file an endorsement with the Office that provides for that. In fact, I think that endorsement has already been filed.

MR. RITTER: It has, but the office has asked us to withdraw that filing because we don't know an effective date of when those become approved.

MR. MAIDA: That was Brad Ritter.

MR. PRENTISS: So is it true then that the upon conversion, the current Fund members would no longer be entitled to dividends out of the newly formed stock insurance company's surplus funds?

MR. HANSELMAN: They may not be entitled, but we would certainly give them through the dividend plan.

MR. MAIDA: They can't be guaranteed, but the intention would be to continue to pay them.

MR. CONWAY: May I?

MR. PRENTISS: Yes, please.

MR. CONWAY: As for clarification of the question, are you saying upon conversion, that the existing policyholders, when their policies expire, would not be entitled to a dividend on their policy based on what they signed at the time of contract? I don't think that is the intent at all. The intent would be, you know, when those policies expire, whatever dividend provision they had with that policy would, you know, would continue at --

you know, after the conversion date until those policies expire. And then when they, you know, get a new policy, it will be whatever dividend plan is enforced at that point in time with the new effective date.

MR. PRENTISS: Thank you.

MR. PETCOFF: So the dividend would survive with the original --

MR. CONWAY: Right. It's a -- conversion on those policies enforce.

MR. PRENTISS: Could you just confirm that the board of trustees approved the plan of reorganization which indicates that RetailFirst Mutual Holdings, Inc. will not make -- I'm sorry.

The proxy statement says that the Fund has retained a portion of its earnings in order to reduce the risk of making assessments against its members. How did the Fund determine what portion of its earnings should be retained to cover this risk and who made the decision and was it reviewed by an actuary?

MR. PETCOFF: The board meets at least monthly and consults with our financial advisers, which include an actuary, which include our independent CPAs, which include the finance department of our administrator, it also includes outside independent actuaries. And we asked them for their best guesses and they give us the benefit of their advice. And generally speaking, they give us a range of what their guess for the ultimate seasoning of losses will be. We have been particularly conservative in our management of this program for a long time, and we generally establish those loss reserves at the high end of the range that the experts give us.

MR. PRENTISS: When a dividend is declared by the Fund, how is the distribution to each member calculated?

MR. PETCOFF: It's formulaic and it excludes members with adverse loss histories, done on individual basis, and it's a tiered structure. The lower the losses, the higher the dividend, the higher the losses to the cut off point, the lower the dividend.

MR. PRENTISS: Will this change after the conversion?

MR. PETCOFF: No.

MR. PRENTISS: Has the Fund considered quantifying the monetary value of the contingent assessment liability in an effort to more firmly determine if the consideration to members is fair given the surplus of the fund is in excess of $100 million?

MR. PETCOFF: I don't know if I can answer that. I might have to defer to our finance people.

MR. HANSELMAN: No, I would say that we consider that all the time. To quantify that is virtually impossible. It's almost a situation of you don't know what you don't know. So to access that is a very difficult thing. Is it on our mind as a potential high risk scenario? Absolutely. It's a low probability, a very low probability with a disastrous result if it ever happened. And I'll say disastrous, not -- we obviously take protection in terms of having additional surplus in mind. I mean, we are very, very conservative on the reserves to make sure that that does not happen. But in terms of our competitiveness going forward, it would be a disastrous result for the Fund and potentially to the members on a financial basis. But difficult to quantify. I defer to Pat DeLacey.

MR. DeLACEY: Could you reinsure it? Probably. Would it be costly to do so? Yes, it would. In any circumstance, it is a benefit to the members without any diminution in this transaction through our policyholder credits.

MR. RITTER: This is Brad Ritter. The board does engage an independent actuary, KPMG, to give them an assessment as to the likelihood of that happening. And that is part of the fund rules in Florida. And so annually, they do file a report. I think it's due around October 1st. But it's part of an aggregate self funding program and it's part of the rules of Florida.

MS. MOSTOLLER: Is this a study that's done in addition to that which goes with the financial statement that's filed each year? I don't know that the office has a copy of that.

MR. RITTER: Yes, it's due -- I think it's due October or November 1st. But it's part of the aggregate self funding part of the rules.

MS. MOSTOLLER: Okay. I think where our concern was is that we look at the transaction and the surplus of the SIF right now is 123 million when the insurance company, if we were to go forward with this planned reorganization, the balance sheet is going to be very similar except for disallowing the BusinessFirst and other adjustments. But right now with the SIF, that $123 million, that's all the members -- that's their money. Those are their moneys, $123 million. So what we were concerned and felt obligated to make sure that someone had looked at being able to quantify the potential for an assessment. You know, how do you eliminate that contention liability? What is the dollar value associated with that? Because right now in our minds, it's -- you're saying it's close to $123 million. One of the greatest benefits of going to the insurance company is to get rid of that contingent assessment liability. And, you know, it's one thing that we felt here that perhaps maybe an actuary or something should look at that and say, you know, eliminating that is worth X number of dollars to the member. Is that something that --

MR. CONWAY: You're almost equating, though, that that value of the transaction for the value of the member at the end of the time period is zero and that's not the case. The value to the member after the transaction is identical to the value to the member right now. You know, in a -- so you -- I don't understand the logic behind the question.

MR. DeLACEY: The policyholder numbers, what they have is they have membership rights in an entity that's providing them a stable market.

Certainly the Department would not allow this mutual insurance company to convert and continue to provide a stable market for workers' comp after distribution of all or a substantial part of that capital. Holding that capital is the requirement for providing the product that the members are seeking. And you could not provide that product without having the capital in the company to do so.

MS. MOSTOLLER: But is that magical number 123 million? Is that the magical number? Should there maybe have been someone to look at it and say, perhaps, you know, you need X dollars and the members should, in fact, perhaps get some sort of distribution back since this is their 123 million right now.

MR. DeLACEY: The holding of capital is the quintessential responsibility of the board of directors in their business judgment for the benefit of the policyholders. You can have actuaries take a look at whatever they might take a look at, but at the end of the day, only the board can decide what's prudent and appropriate to hold in terms of capital as opposed to giving part of that back to their constituents, the people that elected them, the policyholders. This board has made the decision to keep some and give some back. But it doesn't really have anything to do with this reorganization.

MR. HANSELMAN: I would even say even if the FRF SIF did not have this contingent liability assessment, we probably would ant to keep that $123 million in surplus anyway. Why? Because reserves are a fickle thing and extremely volatile and it's -- as Pat alludes to, it's a fiduciary obligation of the board of directors here to ensure that we are able to pay our claims first and foremost. So we're always going to have a surplus base just like every other insurance company has an adequate surplus base to contend with that volatility. So, yeah, I think we would be difficult to say that 123, would -- might be set aside for that contingent assessment, I don't know -- I have not seen the actuary report that Brad is referring to, but I would suspect that it's -- we just need to be sure that we have enough surplus to maintain our business going forward. And also allows us to grow as -- you know, as well. So even if we're at a one-to-one premium surplus ratio, we might want that to continue our growth which is good for the members -- membership as well.

MR. PETCOFF: Our long term philosophy has been to be rather conservative in management of other people's money. We've been very thrifty with that. We watched as a number of funds imploded in Florida when they grew too quickly, they didn't maintain the proper underwriting disciplines. Those horror stories were etched on our minds. We watched what's happened in other states. Most recently, one of the more horrific implosions happened to Kentucky to the Associated Industries of Kentucky Fund. A huge fund, major collapse, tremendous scandals. We don't ever want our members to have to -- and clearly we don't want to face. We just assume that the Department didn't have to face that sort of issue either. So if we are to be criticized for having erred on the side of conservatism, we're pretty proud of that.

MR. PRENTISS: What is -- moving now to employees and compensation, what is the approximate number of persons employed by the Fund excluding the board of trustees?

MR. PETCOFF: We have --

MS. SIPE: Zero.

MR. PETCOFF: Employees?

MR. PRENTISS: Yes.

MR. PETCOFF: Oh, I was thinking outside consultants that we pay a consulting fee to.

MR. PRENTISS: So it's basically the trustees, and then you have a contract with somebody else to do all the work?

MR. PETCOFF: Correct. We have zero employees.

MR. PRENTISS: What is the approximate number of persons to be employed by RetailFirst Mutual Holdings, RetailFirst Holdings, Inc., or RetailFirst Insurance Company excluding the board of directors in the offices post conversion?

MR. PETCOFF: Zero.

MR. PRENTISS: Same exact? Okay. Do you plan on having one or more stock incentive plans developed and adopted for the benefit of the directors, the officers, you have no employees -- the directors or officers of RetailFirst Mutual Holdings, RetailFirst Holdings, or RetailFirst Insurance Companies?

MR. PETCOFF: There's not a plan on the table currently. It's something that we may consider in the future.

MR. PRENTISS: For anybody who has to run out like Ernie, the restrooms -- should we take a break? Do we need five minutes?

(Brief recess.)

MR. PRENTISS: Okay. Back on the record. We're going to accommodate Mr. DeLacey and ask some questions relating to Raymond James now. Would you mind coming up a little closer to the microphone?

MR. DeLACEY: No, that's fine.

MR. PRENTISS: That will be great. Would you explain the scope of the fairness opinion?

MR. DeLACEY: The scope of the opinion is Raymond James stating its opinion that the reorganization is fair from a financial point of view and to the members.

MR. PRENTISS: Did the scope of the fairness opinion allow Raymond James to opine on whether or not converting the Fund to a stock insurer is the best option?

MR. DeLACEY: No, we did not in any way consider other alternatives.

MR. PRENTISS: And did you consult an actuary in any capacity during your review of the reorganization?

MR. DeLACEY: We reviewed actuarial statements and reports of the company. But did not speak with a third-party actuary, rather review their report.

MR. PRENTISS: And these would be actuaries that have been hired by the Fund?

MR. DeLACEY: Yes. We did not hire any third-party actuary.

MR. PRENTISS: Were you -- was there any discussion with respect to looking at other alternatives?

MR. DeLACEY: No, sir.

MR. PRENTISS: Was there any attempt to quantify the extinguishment of the contingent liabilities?

MR. DeLACEY: No, sir.

MR. PRENTISS: Did you take into account in your fairness opinion the -- that the return of the -- that there was no return of surplus to the fund members?

MR. DeLACEY: We did.

MR. PRENTISS: Now. The written opinion, as I understand it, describes the documents that you reviewed?

MR. DeLACEY: Yes, sir.

MR. PRENTISS: One of those documents is the draft plan of reorganization which does include an analysis of the alternative transactions. Do you believe the proposed reorganization is the best alternative for the fund?

MR. DeLACEY: We were not asked that question and made no evaluation as to what might be the best alternative.

MR. PRENTISS: Okay. The letter of opinion states that it is based upon the circumstance and conditions as of that date, October 22nd, and that any material change in the circumstances or conditions would require a reevaluation of the opinion. Are you aware or have you been made aware of any material change in the circumstances or conditions that would require a reevaluation of your original opinion?

MR. DeLACEY: I am not aware but have not done any analysis, research, or inquiry in order to make such a determination.

MR. PRENTISS: Do you know why the proxy statement, the draft proxy statement, was not one of the things that you were to review?

MR. DeLACEY: I don't believe that the draft proxy statement was prepared until after the board approved the plan.

MR. PRENTISS: Do you think it would have been an important document that you -- do you think it should be reviewed as part of your fairness opinion?

MR. DeLACEY: If it doesn't exist, I can't review it.

MR. PRENTISS: Right. If one existed now --

MR. DeLACEY: I have, in fact, reviewed the proxy materials at the request of my client and in helping them to answer some of the questions that have been asked by OIR.

MR. PRENTISS: Okay. And so you have looked at it?

MR. DeLACEY: I have looked at it.

MR. PRENTISS: Does it change the opinion in the fairness?

MR. DeLACEY: It doesn't.

MR. PRENTISS: Okay. That's all the questions for him, isn't it? Thank you.

MR. DeLACEY: Thank you.

MS. MOSTOLLER: Just if I can reread from the fairness opinion, it says our opinion is limited to the fairness from a financial point of view of the consideration of to be received by members of the Fund in connection with the reorganization. This fairness from a financial point of view, how do you say it's fair to eliminate the contingent assessment liability without any validation of what that amount should be? I mean --

MR. DeLACEY: Well, it's a potential liability.

MS. MOSTOLLER: Yes.

MR. DeLACEY: It has some positive value. It has been eliminated. Okay. The consideration received by policyholders is they received membership rights in the MHC. And so our evaluation was to consider the membership rights they had in the SIF and compare those to the membership rights they had in the MHC. In addition to receiving membership rights for membership rights, they also eliminated and avoided completely contingent liability. So whether that was worth $5 million or $25 million, it was a benefit to policyholders beyond the exchange of membership rights. And key to the analysis is to, from our perspective, ensure that somehow the membership rights from a financial point of view that they received were not somehow inferior. That there was no -- and our analysis would have been -- our analysis certainly considered the minority holders and what they got relative to the policyholders. If there were other things going on, we would have to evaluate those as well. But strictly from the point of contingent liability for assessment, it has a meaningful positive value. The elimination of which was received in addition to the policyholder membership rights in the MHC which are set forth -- which means that they will always control -- the MHC structure means that they will always control RetailFirst, BusinessFirst. They will always own at least 51 percent, will always have the right to determine the board of directors as they do today.

MR. PETCOFF: It would be an interesting question to ask a member how much he would pay us to eliminate his accessibility instead of how much he would receive. Because he's really receiving that benefit of an unknown unlimited liability. How much is that worth to him to have it removed? Well, if your net worth were $100 million, and then you have theoretically a $200 million liability, then it would be worth a lot to him to pay you, to say, take my name off the list. So in this conversion for no money, we removed that liability from him and continue their voting privileges, we continued their coverage, we continued the services they have been getting with no additional charges.

MR. DeLACEY: If they were required to pay money to have that liability extinguished, you're correct, I would have had to do a different analysis to determine -- to make an assessment of that. But that was extinguished at the same time they received policyholder membership rights effectively undiminished at any rate, no diminution of what they have.

MR. DOMONDON: Do you know if your firms has been hired before to evaluate and to express an opinion of the best alternative in a similar reorganization?

MR. DeLACEY: It is -- I am unfamiliar with any firm that has been asked to opine as to what's the best alternative. That is the job of the board of directors dually elected by constituents. It is not the job of a financial adviser to advise on what the best alternative is. Because best takes into consideration a number of qualitative judgments that is not the job of a financial adviser. So, no, I don't believe that my firm or any firm has ever offered an opinion as to what's the best alternative from a financial point of view.

MR. DOMONDON: Thank you.

MR. PRENTISS: That's it? Can we let him go? We can let Mr. DeLacey go.

We don't have a heck of a lot left to go. Going back to employees' compensation. Will the members have the right the vote on a compensation -- to vote on compensation packages and/or stock incentive plans?

MR. MAIDA: I don't believe they will.

MR. PRENTISS: What are the benefits to the trustees if the reorganization takes place?

MR. PETCOFF: I don't think there's any changes to the benefits the trustees receive in a post conversion world. It's all the same.

MR. PRENTISS: What type of financial compensation does the board of trustees receive for their services?

MR. PETCOFF: We receive a fee, an annual fee that includes meeting time and all of our expenses.

MR. PRENTISS: Does that vary year to year?

MR. PETCOFF: Yes. As a matter of fact, it's capped. And so actually we just took a reduction in fee as our premiums have been reduced.

MR. RAINEY: Jeff Rainey. Will the board of directors and trustees receive these fees, reimbursements at each level for each individual company? The board of trustee of RetailFirst receive their compensation, the board of BusinessFirst will receive their compensation, the board of Retail Holdings will receive their compensation? Are these separate compensations at each entity level or --

MR. PETCOFF: I don't think so. They're --

MR. RAINEY: Because currently there's just --

MR. PETCOFF: There may be Fund. Actually there's Fund and BusinessFirst currently have separate compensation packets. I expect that will continue.

MR. PRENTISS: Did the trustees consider having Raymond James review the alternatives to the proposed reorganization?

MR. PETCOFF: No, sir.

MR. PRENTISS: Okay. We heard that Raymond James' fairness opinion does not cover whether or not converting the Fund to a stock insurer is the best option. Was there an independent opinion that covered this?

MR. PETCOFF: No, sir.

MR. PRENTISS: When will the proxy statement be sent to members?

MR. PETCOFF: As quickly as possible following your approval of the statement.

MR. PRENTISS: Do you have -- do you know how many days will be provided from the mailing to the date of the meeting?

MR. MAIDA: We're anticipating approximately six weeks.

MR. PRENTISS: Six weeks. And do we have a date for the special meeting for the vote?

MR. MAIDA: Not yet. It will depend on if and when --

MR. PRENTISS: We approve?

MR. MAIDA: -- approval is granted, then we'll set that.

MR. PRENTISS: If a member has questions regarding the proposed conversion, whom should they contact?

MR. MAIDA: Those instructions will be set out in the proxy materials, but they will have the ability to call and ask questions.

MR. PRENTISS: Do we know who that's going to be? Or is it just going to be a number --

MR. MAIDA: They will be able to -- we are engaging a proxy solicitation firm. They will certainly be able to call and ask questions of them.

MR. PRENTISS: Of the firm. Okay. That's all the prepared questions we have.

MADAM CHAIR: Okay. Thank you, Bob. We will now open the hearing to comments and questions from any members of the audience. Any question? Okay.

MS. MOSTOLLER: Are there any members of the Fund here today?

MR. HANSELMAN: I really like the plan.

MR. NISSEN: I'm looking for forward to the conversion.

MR. RITTER: And Summit is too.

MR. PETCOFF: Yes, Summit is a member.

MR. CONWAY: They provide our workers' compensation.

MS. MOSTOLLER: Okay.

MADAM CHAIR: Okay. Presentations made here today will be given careful consideration. The transcript of this hearing will be made available for viewing on the Office's website and also at the website of Summit Holdings. Now, unless, there is further comment from anyone present, I hereby declare this hearing adjourned.

(Hearing adjourned at 4:31 p.m.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA:
COUNTY OF LEON:

I, TRACY L. BROWN, do hereby certify that the foregoing proceedings were taken before me at the time and place therein designated; that my shorthand notes were thereafter translated under my supervision; and the foregoing pages numbered 1 through   are a true and correct record of the aforesaid proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the foregoing action.

DATED THIS   day of   , 2010.

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